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R.O.B

THE SUPERIOR OIL COMPANY



1975 ANNUAL REPORT

THE SUPERIOR OIL COMPANY



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Highlights

For the Years Ended December 31, 1975 and 1974

	1975	1974		
FINANCIAL				
Income before extraordinary items	\$ 51,926,000	\$ 60,997,000		
Equity in extraordinary items of affiliated company	3,416,000	—		
Reduction in Federal income tax expense resulting from use of prior years' loss carryforwards	—	7,000,000		
Net income	55,342,000	67,997,000		
Earnings per average share outstanding				
Income before extraordinary items	12.94	15.15		
Extraordinary items	.85	1.74		
Net income	13.79	16.89		
Operating revenues	382,149,000	332,651,000		
OPERATING				
Crude oil — gross production (barrels per day)	82,456	90,669		
Natural gas liquids — gross production (barrels per day) ..	16,580	17,719		
Natural gas — gross sales (thousands of cubic feet per day)	1,042,793	1,172,240		
Employees at year-end	3,341	3,346		
Wells drilled				
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
Exploratory				
Productive	57	21	60	17
Abandoned	113	42	139	37
Development				
Productive	295	77	274	56
Abandoned	<u>26</u>	<u>8</u>	<u>29</u>	<u>6</u>
Total	<u>491</u>	<u>148</u>	<u>502</u>	<u>116</u>

To the Shareholders of The Superior Oil Company

The Company's consolidated net income before extraordinary items for 1975 was \$51.9 million, \$12.94 per share, compared with \$61.0 million, \$15.15 per share, for 1974. The extraordinary items of \$3.4 million, \$0.85 per share, reported in 1975 represents the Company's equity in extraordinary items of McIntyre Mines Limited, an affiliated company. The \$7.0 million, \$1.74 per share, extraordinary item reported in 1974 represents a reduction in Federal income tax expense due to the use of prior years' loss carryforwards. After giving effect to such extraordinary items, consolidated net income for 1975 was \$55.3 million, \$13.79 per share, as compared with \$68.0 million, \$16.89 per share, for 1974.

Consolidated income from operations for the year decreased from \$105.4 million in 1974 to \$95.3 million in 1975. Consolidated operating revenues increased by \$49.5 million, primarily due to increased revenues from the sale of natural gas. Consolidated operating expenses increased by \$59.6 million; the most significant increases being in operating costs (\$12.4 million), intangible development costs (\$27.0 million) and nonproductive leases and other properties abandoned (\$9.4 million).

The most significant item of consolidated other income during 1975 is a \$24.3 million gain on the sale of 2,710,000 shares of Texaco Inc. capital stock. Most of the proceeds realized from the sale of the Texaco stock were used to purchase 835,700 shares of Austral Oil Company Incorporated common stock and to make prepayments of \$38.7 million on long-term bank indebtedness. Dividends and miscellaneous income decreased by \$3.8 million, due primarily to a decrease of \$3.7 million in dividends received from Texaco.

The provision for income taxes increased by \$21.7 million. As stated in prior reports, recent

income tax legislation in both the United States and Canada has increased significantly the tax burden on the oil and gas industry. The Tax Reduction Act of 1975 substantially reduced the percentage depletion allowance for Federal income tax purposes for oil and gas produced after December 31, 1974, and effected a number of adverse changes with respect to foreign oil and gas activities. Recent amendments to the Canadian income tax act, which deny the deduction from income of royalty and similar payments to the government and restrict deductions of certain development expenses and depletion allowances, have increased substantially the income taxes of the resource industry in Canada.

Consolidated net income before extraordinary items for the three months ended December 31, 1975 was \$0.7 million, \$0.18 per share, compared with \$16.0 million, \$3.99 per share, for the same period in 1974. The \$15.3 million decrease in income before extraordinary items is primarily due to increases in operating costs (\$4.2 million), intangible development costs (\$12.5 million) and nonproductive leases and other properties abandoned (\$5.7 million), partially offset by an increase in operating revenues (\$8.8 million). The extraordinary item of \$3.4 million, \$0.85 per share, in the fourth quarter of 1975 represents the Company's equity in extraordinary items of McIntyre Mines Limited, an affiliated company. The extraordinary item reported in the fourth quarter of 1974 of \$2.9 million, \$0.72 per share, represents a reduction in Federal income tax expense due to the use of prior years' loss carryforwards. After giving effect to these extraordinary items, consolidated net income for the three months ended December 31, 1975 was \$4.1 million, \$1.03 per share, compared with \$18.9 million, \$4.71 per share in 1974.

PRODUCTION AND SALES FOR 1975**Consolidated**

As indicated in the 1974 Annual Report, all consolidated average daily production and sales figures are shown on a gross basis in the Highlights section, since provincial government royalties on Canadian production must be determined by applying a graduated percentage scale to gross sales proceeds. There were declines in 1975 in consolidated average daily gross production of crude oil and condensate and in consolidated average daily gross sales of natural gas of approximately 9 percent and 11 percent, respectively. Consolidated average daily gross production of natural gas liquids decreased during the year by approximately 8 percent.

Excluding Canadian Superior

Average daily net crude oil and condensate produced by the Company and its wholly owned subsidiaries decreased from 47,962 barrels in 1974 to 43,630 barrels in 1975. The decrease was primarily due to the natural decline of producing fields in Texas (1,678 barrels), Louisiana (1,180 barrels), offshore Louisiana (505 barrels) and Oklahoma (502 barrels). Revenue from the sale of crude oil and condensate decreased by approximately \$2.5 million in 1975. The Company realized an average price for domestic crude oil and condensate sold during 1975 of \$6.61 per barrel, an increase of 44 cents per barrel over 1974.

Natural gas processed or sold by the Company and its wholly owned subsidiaries decreased from 991,130 Mcf per day in 1974 to 859,071 Mcf per day in 1975. The decrease was due principally to the natural decline of producing fields in Texas, Louisiana and offshore Louisiana and to a lesser extent, decreased intrastate market demand in Texas. Revenue, net of royalty payments, attributable to natural gas processed

or sold increased \$19.1 million, primarily due to upward price redeterminations negotiated for certain intrastate contracts. During 1975 approximately 28.0 percent of the domestic gas produced was sold intrastate.

Natural gas liquids produced by the Company and its wholly owned subsidiaries decreased from 11,826 barrels per day in 1974 to 10,435 barrels per day in 1975.

NATURAL GAS SALES SUBJECT TO REFUND

The Company for many years collected proceeds from the sales of natural gas in interstate commerce pursuant to certain rate schedules filed with the Federal Power Commission providing for the refund of any portion of such collections ultimately determined to exceed "just and reasonable" rates. Due to these potential refund requirements, the Company followed consistently the accounting procedure of including in income only that portion of the sales proceeds collected under such arrangements which, in the opinion of counsel, was free of refund obligations. Those collections in excess of the amounts included in income were deferred in the Company's accounts and shown in its annual balance sheets under the caption "Natural Gas Sales Subject to Refund." Further, since the Federal Power Commission ordered that any refunds required would bear interest, the Company accrued interest at the prescribed rates on the amounts of natural gas sales deferred, thereby increasing from time to time the balance in the Natural Gas Sales Subject to Refund account.

During 1974 the United States Supreme Court rendered decisions affirming certain Federal Power Commission opinions covering areas in which Superior makes interstate gas sales. These opinions established rates for prospective gas sales and provided a basis for the disposition of past sales which had previously been con-

sidered to be subject to refund. The opinions also provided for an additional reduction in the refund obligation by the commitment of newly discovered gas reserves to interstate sales within specified time limits. In the years 1970 through 1973 the Company committed reserves to interstate sales contracts under the "work-off" provisions of the opinions.

As a result of the affirmation of those decisions, the Company restated earnings for 1973 and prior years in 1974 to include the applicable amounts of gas sales in the years the proceeds were received and the amounts applicable to the work-off provisions in the years the reserves were discovered. Included in restated earnings for 1973 and prior years was the amount of \$7,024,000 applicable to the discovery of reserves under the work-off provisions of the opinions.

During 1974 the Federal Power Commission issued Opinions 699 and 699H which established a nationwide base rate for new interstate sales of fifty cents per Mcf and provided that new gas reserves committed to sales contracts under such opinions were not eligible to reduce the refund liability under the work-off provisions of the prior opinions. Upon appeal by Superior and other producers, the Fifth Circuit Court of Appeals upheld this provision of the opinions in October 1975. A Petition for Rehearing has been denied and Superior and the other producers are now in the process of seeking review of the decision by the Supreme Court. In 1974 and 1975, Superior elected to commit new gas reserves to sales contracts under Opinions 699 and 699H because of the substantially higher price that could be received under these opinions as compared to the amounts that would be retained if the reserves were committed under the work-off provisions of the prior opinions. If

the appellate efforts of Superior and the other producers are unsuccessful, Superior anticipates that it will be required to refund the remaining amount of the refund obligation, together with accrued interest. At December 31, 1975, the Company has a remaining refund obligation of \$31,645,000 (including accrued interest of \$15,650,000). Because of the possibility that this amount may be ordered refunded during 1976, the Company has shown this amount under the classification of Current Liabilities in the balance sheet.

In December 1975, FPC Opinion 749 was issued which provides for "just and reasonable" national rates for sales of natural gas from wells commenced prior to January 1, 1973. While this opinion provides for an escalation of rates on "old gas," it further provides that reserves committed to sales contracts under opinions which had "work-off" provisions would not be eligible for the "work-off" credit on those portions of the reserves which were not delivered prior to January 1, 1976, the effective date of Opinion 749. This provision of Opinion 749 has been appealed by Superior and other producers. If the appeal is unsuccessful, Superior's refund obligation as of December 31, 1975 would be increased by approximately \$2,960,000, which represents the portion of the "work-off" credit for the years 1970 through 1973 which had been included in restated income for those years and interest thereon.

PRICE CONTROLS

Prices for crude oil, condensate and natural gas liquids were constrained by Federal Energy Administration regulations throughout 1975. These controls, which limited crude oil prices to levels far below realistic values and which reduced plant product prices substantially below contract values, served to inhibit the Company's efforts to maintain and expand pro-

duction. The adverse impact of such regulations on supply is typified by the early abandonment of the Company's Ramsey and Lake Creek gas processing plants whose continued operation became uneconomic at product prices restricted by regulation, but which could have continued operation had the Company been permitted to collect the prices provided in its existing sales contracts.

Prices for natural gas in the interstate market improved slightly during the year, but fell far short of requisite values needed to offset production declines and increase supply. Prices for natural gas committed to intrastate disposition have improved significantly and as a consequence the supply-demand relationship is much more favorable for intrastate markets than for the interstate market — a graphic example that supply is responsive to price. Legislation which proposes to extend controls or further limit price can only exacerbate the current supply deficit.

Under the recently enacted Energy Policy and Conservation Act, domestic crude oil prices during 1976 will be lower than those prevailing during 1975. This is another example of legislation which is counterproductive to the goal of improving domestic supply.

LONG-TERM DEBT

The Company borrowed \$12.0 million under a term loan agreement signed April 1, 1975 with several banks. A substantial portion of the proceeds was used in the acquisition of Federal offshore leases. As previously noted, the Company utilized \$38.7 million of the proceeds from the sale of Texaco stock to reduce long-term bank indebtedness during 1975. During the year, Superior Farming Company refinanced \$11.1 million of bank indebtedness which was to mature in 1976 and 1977 and borrowed an

additional \$2.8 million from an insurance company.

DOMESTIC OPERATIONS

The Company maintained an active domestic exploration and development program during 1975 in search of crude oil and natural gas reserves both onshore and offshore.

The most significant lease acquisitions made by the Company were those acquired in the offshore Gulf of Mexico and offshore California Federal offshore lease sales. Ten tracts enumerated in prior reports were awarded the Groups in which the Company participated in the February 4, 1975 sale; the Company's share of the costs of the tracts was \$8,600,378 and its working interests vary from 25 percent to 60 percent. This was the first Federal OCS lease sale in which the Bureau of Land Management offered tracts located in the portion of the Gulf of Mexico off the coast of South Texas.

At the Federal offshore lease sale held on May 28, 1975, the Company, jointly with others, was awarded Tract 38-514, Block 119, West Delta Area, South Addition, offshore Louisiana. Superior paid \$314,362 for its 18.75 percent working interest.

A third Federal offshore lease sale was held on July 29, 1975 at which the Company acquired interests in five tracts at a total cost of \$1,460,477. The leases awarded and Superior's working interest in each were: Tract 38-36, Galveston Area Block 273 (50 percent), Tract 38-119, High Island Area Block 137 (1.5 percent) and Tract 38-120, High Island Area Block 139 (42.5 percent), offshore Texas; Tract 38-188, West Cameron Block 98 (33 percent) and Tract 38-189, West Cameron Block 99 (45 percent), offshore Louisiana. The Company subsequently acquired, at a cost of \$1,558,372, a 13.5 percent



interest in Tract 384, Brazos Area Block 542, offshore Texas, which was awarded at this lease sale.

Superior acquired a 25 percent working interest in Tract 112, OCS P-0276 in the Outer Banks Trend, approximately 100 miles offshore California, which was awarded in the fourth Federal offshore lease sale held on December 11, 1975. The cost to Superior for this interest was \$1,566,000.

The Company has participated in the drilling of four Continental Offshore Stratigraphic Test (COST) wells designed to provide geological and operational data beneficial to both industry and government. Two of the wells were drilled in the Gulf of Mexico, offshore Texas, one in the Gulf of Alaska and one on the Outer Banks Trend seaward from San Diego, California. In addition, a fifth COST well is being drilled on the Atlantic Shelf, offshore New Jersey. Information derived from these tests is used in the formulation of bids submitted at Federal offshore lease sales.

Development of West Cameron Block 71 Field, offshore Louisiana continued during 1975. Eight gas wells drilled prior to 1975 were completed and will be placed on production as soon as necessary certification is received from the Federal Power Commission. Three wells were drilled in 1975. One has been completed as a gas well, one will be completed as a gas well at a later date and one well was abandoned due to mechanical difficulties. A fourth well was commenced during 1975 and is presently drilling below 11,700 feet. Superior has a 100 percent working interest in this field.

Superior, as operator, has drilled six wells in the South Marsh Island Block 243 Field, offshore Louisiana, in which it has a 38 percent working

interest. Four of these wells were drilled during 1975, three of which have been completed as gas producers. The fifth well was drilled to 13,015 feet and abandoned as a dry hole. The sixth well was tested as a producer and will be completed at a later date. A seventh well is presently drilling below 10,750 feet. Due to delays which have occurred in the construction of the production platform ordered for this field it is now anticipated that the platform will not be installed until the third quarter of 1976.

A fourteenth well was drilled on South Marsh Island Block 249 Field, offshore Louisiana, and abandoned as a dry hole. Seven gas wells have been completed in the field and seven wells have been abandoned as dry holes. Construction and installation of the production platform and facilities should be completed by April and deliveries of gas are expected to commence in the latter part of 1976 upon completion of the necessary pipeline connection. No further drilling is contemplated. Superior has a 13 percent working interest in this field.

Considerable effort and funds were devoted to exploration and development drilling on acreage onshore Louisiana. A new gas sand discovery well and two gas development wells were drilled in the Bayou Penchant Field. Superior has a 100 percent working interest in these wells. Other development wells in which Superior has a 100 percent working interest were drilled in Grand Lake Field, Cameron Parish and Four Isle Dome Field, Terrebonne Parish, Louisiana. Superior, as operator, drilled joint venture discovery and development wells in Deep Lake Field, Cameron Parish; Lake Tom Field, Iberia Parish; Kaplan Field, Vermilion Parish; and Dog Lake Field, Terrebonne Parish, Louisiana. Superior's working interests in these wells vary from 37.5 percent to 50 percent.

*Offshore rig drilling in Mustang Island
Block 831, offshore Texas.*

Construction of cryogenic facilities for recovery of liquid ethane product from gas processed in Superior's 100 percent owned Lowry Plant, Cameron Parish, Louisiana is now in final stages of completion. Commissioning of these facilities is anticipated in the second quarter of 1976 with an ethane production of approximately 2,000 barrels per day and additional propane production of approximately 500 barrels per day. Ethane production will be marketed under a favorable long-term contract.

Mustang Island Block 831, Well No. 1, the first exploratory well in Federal waters in the South Texas offshore area, was drilled to 11,048 feet

and temporarily suspended. During production tests the well flowed at 4,858,000 cubic feet of gas per day from one zone and 5,341,000 cubic feet of gas per day from another zone. A second well is being drilled one mile north of the discovery well to aid in evaluating the significance of the discovery. Superior has a 25 percent working interest in this Block.

A well drilled on South Padre Island Block 1052, offshore Texas, in which the Company has a 45 percent working interest, was plugged and abandoned, as were exploratory tests drilled on North Padre Island Block A-44 (20 percent working interest), and Mustang Island Block



Aerial view, Lowry Plant, Cameron Parish, Louisiana during construction of cryogenic ethane recovery facilities.

788 (60 percent working interest). It is anticipated that further exploration drilling will be done in these Blocks.

Four wells have been drilled and completed as gas producers in the High Island Block 111 Field, offshore Texas and a fifth well has been temporarily suspended for completion as a gas producer at a later date. Plans for further drilling in the area are being studied. Superior has a 1.5 percent working interest in the field formed by pooling Blocks 110 and 111.

Seven wells have been drilled from Platform A located on High Island Block A-323 Field, offshore Texas. Six of the wells will be completed as gas producers and one well will be used as a water disposal well for the field. An eighth well is presently drilling below 6,900 feet. Superior has a 3 percent working interest in this Block.

Three gas wells and one oil well have been drilled from Platform A, High Island Block A-520, offshore Texas and will be completed at a later date. Two wells were abandoned. Superior has a 3 percent working interest in the Block.

After the discovery of a new shallow gas zone in the South Borchers Gas Field Area, Lavaca County, Texas three development wells have been drilled and will be completed as gas producers. The W. W. Moore No. 1 well, a stepout well northeast of the South Borchers Field, was drilled to 4,550 feet and plugged and abandoned. Superior has the entire working interest in these wells.

In the Permian Basin, including the Delaware Basin Area, of West Texas and Southeast New Mexico, Superior continued an active exploration program and participated in numerous field development and extension wells. In Crane County, Texas, near the McElroy Field, the Uni-

versity "N" No. 1 well resulted in a Devonian oil discovery. Studies are being made to determine if further development is justified. Superior has a 100 percent working interest in the well. In Ward County, Texas two exploratory wells were completed as successful stepout gas producers. One, the University "L" No. 1, completed in the Fusselman gas formation, extended the Caprito Field. The other, University "M" No. 1 well, near Block 16 (Devonian-Ellenburger) Field, was a successful stepout gas completion in the Ellenburger formation. Superior has a 66.67 percent working interest in the University "L" No. 1 and a 100 percent working interest in the University "M" No. 1.

Particular effort has been focused in Southeast New Mexico in Lea and Eddy Counties in acquiring State and Federal lease acreage for Morrow sand gas reserves. Increased gas prices and a relatively high success ratio in exploratory and development drilling has made competition for these leases particularly keen. Approximately 17,190 acres were leased by Superior during 1975 at a cost of \$1,742,877. The Company participated in successful extension drilling during 1975 in the Burton Flat-Russell Sand Dunes and Cemetery Fields, Eddy County and the Lea and North Bell Lake Fields, Lea County, New Mexico. A new gas producing zone was discovered in the Cemetery Field and a significant 2 1/2 mile stepout well was drilled in the North Bell Lake Field. Superior's working interests in these fields vary from 4 percent to 25 percent. Further drilling in these areas is projected for 1976.

CANADA

Canadian Superior Oil Ltd.

Net income expressed in Canadian dollars increased from \$30.6 million, or \$3.57 per share in 1974 to \$34.4 million, or \$4.02 per share in 1975. Total revenues for the same period in-

creased from \$94.4 million to \$127.2 million. The increase is primarily due to higher prices received for crude oil and natural gas. Expenditures for drilling and exploration during 1975 totaled \$28.9 million compared with \$16.7 million expended during 1974.

Crude oil and natural gas liquids sales declined from 40,375 gross barrels to 37,581 gross barrels per day, approximately 7.0 percent. Revenues from this source, however, increased 13 percent to \$71.5 million, due primarily to a price increase at mid-year. Natural gas sales, on the other hand, increased approximately 4.0 percent from 231 million cubic feet to 240 million cubic feet per day. Revenue from gas increased 120 percent to \$45.7 million in 1975 due to improved average prices. Sulphur sales volumes decreased 42 percent to 369 long tons daily as a result of decreased domestic and foreign demands for fertilizer. The decline was offset by higher prices.

Fourth quarter net income for 1975 amounted to \$9.9 million, compared with \$9.5 million for the same period in 1974. Drilling and exploration expenditures charged to income during the quarter increased to \$10.9 million in 1975 from \$6.6 million. This represents the most active exploratory drilling quarter in the history of Canadian Superior.

Canadian Superior expanded its exploratory drilling program in Canada, primarily in the province of Alberta and in the MacKenzie Delta Area of the Beaufort Sea. The Company continued its development program in the Gulf Coast Area of the United States and was successful in acquiring varying interests in 14 lease blocks offered at Federal lease sales in the Texas offshore area. Major exploration programs were also conducted in the offshore areas of the Arabian Gulf and United Arab Emirates, in the offshore Cauvery Basin of India, Guatemala,

Bolivia and the United Kingdom sector of the North Sea.

The Company owns 4,556,760 shares of common stock of Canadian Superior, or 53.3 percent of the 8,553,586 shares issued and outstanding at December 31, 1975.

McIntyre Mines Limited

Consolidated net income before an extraordinary item, expressed in Canadian dollars, including McIntyre's equity in undistributed earnings of affiliates, was \$11.5 million for 1975 compared with \$12.3 million for 1974, on a restated basis. An extraordinary item of \$6.0 million reported in 1975 represents a reduction in deferred income taxes resulting from prior years' losses. After giving effect to such extraordinary item, consolidated net income for 1975 was \$17.5 million. The restatement of 1974 income is a result of a restatement by Falconbridge Nickel Mines Limited, an affiliate, to reflect a reduction in 1974 income and mining taxes arising from an amendment to the regulations of the Ontario Mining Tax Act.

The profit from operations during 1975 was \$18.8 million compared to \$5.9 million for 1974. The Smoky River Coal Division earned \$19.9 million for the year compared to \$2.7 million during 1974. Dividends from affiliates, Falconbridge Nickel Mines Limited (owned 37.3 percent) and Madeleine Mines Ltd. (owned 36.4 percent) totaled \$2.3 million compared with \$5.3 million for 1974.

Capital expenditures at the Smoky River properties during 1975 amounted to \$16.0 million, slightly more than the \$14.5 million spent in 1974. Clean coal production increased to 1,680,000 long tons during 1975 from 1,528,000 long tons during the prior year.

The Madeleine mine in Quebec earned a profit of \$315,000 for 1975 compared with \$2,502,000 for 1974. Continuation of low copper prices is the primary reason for the decrease in earnings. The mine produced 19,354,616 pounds of copper and 179,034 ounces of silver during 1975 compared with 19,113,819 pounds of copper and 176,052 ounces of silver during 1974.

SOUTH AFRICA

The Company's 24 percent equity in the earnings of Western Platinum for the year 1975 amounted to \$251,500 before amortization of excess cost. This compares with \$1,731,000 for the prior year.

Severe shortage of South African labor aggravated by demonstrations and riots in the mining industry adversely affected production throughput and unit costs. In addition, working costs increased substantially due to wage increases and increases in the costs of materials, supplies and energy. These factors, together with the softening of prices and demand for certain precious metals, account for the reduction in earnings.

NORTH SEA AREA

The third phase of gas compression facilities of the Hewett-Bacton Plant was mechanically completed in December 1975. This additional compressor horsepower will be placed in service early in 1976 in order to maintain contract delivery commitments for the Hewett Field gas. Superior Overseas Development Company, Ltd., a wholly owned subsidiary of the Company, has a 9.16 percent working interest in the Hewett Field Unit in the United Kingdom waters of the North Sea.

A total of 72 gas wells have been completed from the six platforms located in the East Leman Unit in the United Kingdom waters of the North Sea. Six of these wells were completed during

1975 from Platform F. No further development drilling is projected for the Unit in the near future. Superior Overseas Development Company, Ltd. has a 0.31658 percent working interest in the Unit.

The Company has maintained an active participation in exploratory drilling in the United Kingdom waters of the North Sea. Two wells have been drilled on U. K. Block 21/2. The first well encountered two zones of Jurassic sandstone testing a combined rate of 5,540 barrels per day. Additional seismic work was then conducted and a second test drilled on this same structure 3 1/2 miles to the east, testing gas at the rate of 18.5 million cubic feet and 1,900 barrels of condensate per day from a Lower Cretaceous sandstone. Further drilling will be necessary to evaluate the significance of these two wells. Twenty-five percent of the cost of these wells was paid by Superior Overseas Development pursuant to an agreement with another company, whereunder it will bear 25 percent of all costs incurred with respect to five blocks covered by two licences until such costs are recouped from a designated share of production, at which time Superior Overseas Development's interest in the blocks will be 12.5 percent. An unsuccessful exploratory test was drilled on Block 205/26, west of the Shetland Islands, in which Superior Overseas Development has a 12.5 percent interest.

Geological and geophysical studies are being conducted elsewhere in the United Kingdom waters in anticipation of a fifth round of licensing which will probably be held during 1976.

In the Netherlands portion of the North Sea, Netherlands North Sea Superior Oil, Ltd., a wholly owned subsidiary of the Company, and all other licensees in Netherlands Block K-12 and Block P-17 farmed out one-half of their in-

terests in these blocks in consideration for the drilling of two wells. The first test on Block K-12 encountered gas flow at the rate of 24.5 million cubic feet from the Rotliegendes sandstone. The second test well will commence in the second quarter of 1976.

INDIA

Superior Oil Company of India, wholly owned by the Company, has a 16.667 percent participation in a four-company group which has completed an extensive seismic program in the Gulf of Kutch off the northwest coast of India. The No. H-1 Kutch well, a test projected to 15,000 feet, was drilled to 7,500 feet and abandoned.

By participating in the drilling of two test wells, Superior of India will earn a 12.5 percent interest in a production sharing contract covering approximately 7,000,000 acres in the Bay of Bengal, off the northeast coast of India. The first of these tests was drilled to 13,350 feet and abandoned. The second test, projected to be drilled below 10,000 feet, is presently drilling below 8,000 feet approximately 40 miles to the south.

BOLIVIA

An extensive seismic program was conducted during 1975 to assist in the evaluation of holdings on the Bolivian Altiplano. As a result of this work and after extensive geological studies, a location was chosen for the drilling of a projected 10,000 foot pre-Tertiary test. The test is presently drilling below 6,158 feet. Bolivia Superior Oil Company, wholly owned by the Company, is operator and has a 75 percent working interest in this one million hectare block.

PERU

Extensive seismic work in the Ucayali Basin of the Oriente Area of Peru was completed during 1975. The first well, drilled in the northern por-

tion of the 2,545,000 acre block was drilled to a total depth of 14,297 feet and plugged and abandoned. A second well, 80 miles south of the first test, was drilled to 10,202 feet and abandoned. The site for a third test is being prepared for drilling approximately 26 miles southeast of the second test. Superior Oil Company of Peru, wholly owned by the Company, is participating with four other companies in a production sharing contract with Petroperu, the Government oil company. The subsidiary will bear 15 percent of exploration expenditures incurred under the contract.

PHILIPPINES

The Superior Group of companies has farmed out a portion of its interest in its Sulu Sea Block PEC 333 for the drilling of a 10,000 foot test with an option for the farmee to earn a similar interest in Block PEC 409. The Group had previously drilled dry holes on each of these blocks. The test was drilled to 10,000 feet and abandoned. No significant shows were encountered. Philippine Superior Oil Company will retain a 16 percent interest in PEC 333 and an 18.9 percent interest in PEC 409 if the option is exercised.

PAPUA NEW GUINEA

After the abandonment as a dry hole on April 1, 1975 of a deep Mesozoic test in the Gulf of Papua, Dibiri No. 1A-X, Australian Superior Oil Company, Ltd., wholly owned by the Company, reduced its holdings in the area from 15 percent to 7.5 percent by farmout to another company. Areas around the Uramu and Pasca gas discovery wells were excluded from the farmout. At year-end approximately 1,600 miles of new seismic data had been acquired at no cost to the Company. The farmee will assume the Company's work obligations on those permits which require additional seismic surveys and exploratory wells.

OIL SHALE

The exploration coring program conducted on the Company's mineral fee property of approximately 6,500 acres of land in Rio Blanco County, Colorado was completed recently and has delineated the extent of substantial quantities of oil shale in association with dawsonite and nahcolite. Dawsonite is an aluminum and sodium bearing mineral and nahcolite is a naturally occurring sodium bicarbonate. For several years the Company has engaged in extensive research and development activities for the purpose of determining the economic potential of the deposits of oil shale and associated minerals. A pilot testing program indicates that nahcolite has excellent properties for dry removal of sulphur dioxide and nitrogen oxides from industrial stack gas, as well as other possible commercial applications. Superior has developed, patented and is presently pilot testing an "Integrated Process" for mining and processing the multi-

ple minerals which would produce shale oil, raw nahcolite, alumina and soda ash in one operation. The integrated, multi-mineral process is designed to permit step-by-step development and modular plant construction to minimize risk and capital exposure. The process has certain characteristics which make compliance with environmental regulations possible at minimum costs.

Due to the irregular configuration of the Company's oil shale tract, it appears that a more efficient mining operation can be conducted if a reasonable modification of such configuration can be effected. As reported previously, in an effort to achieve this objective, an application was filed in 1973 with the United States Department of the Interior to exchange, on an equal, fair market value basis, a portion of the Company's acreage for adjacent acreage owned by the United States Government. Such application



Aerial view, Superior Farming Company almond hulling and dehydrating facilities near Bakersfield, California.

is still under consideration by the Interior Department.

MINING

The Company and some of its wholly owned subsidiaries have continued exploratory activities in the search for non-ferrous minerals in the United States and certain foreign countries.

Of particular interest is the DeLamar Silver Mine in Owyhee County, Idaho, in which the Company owns a 23.75 percent interest. The property contains silver and gold and will be developed by open pit methods. If planned production is achieved, the mine will become the third largest silver producer in the United States. The Company's share of pre-production expenditures is approximately \$4,700,000. The mine is now expected to be placed into production during the first half of 1977.

AGRICULTURE

The operations of Superior Farming Company, a wholly owned subsidiary, were adversely affected in 1975 by declining prices received for products, reduced yields of various crops due to abnormal weather conditions and continued inflationary increases in labor and other agricultural costs. The subsidiary sustained a net loss, before consideration of income tax effects, of \$14,944,000, which includes a provision of \$6,410,000 to reduce the capitalized costs of certain permanent crops, principally wine grape vineyards. Since its inception, the subsidiary has followed the accounting policy of capitalizing all expenditures incurred in the development of tree and vine crops until they reach maturity or attain a commercial level of production. The horticultural and economic status of all permanent crops are continuously reviewed to determine that the capitalized costs do not exceed an amount which can

reasonably be expected to be realized in the future.

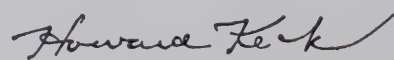
The subsidiary continues to pursue its active program of diversified agricultural operations and approximately one-half of its permanent crop acreage has now reached maturity or is in commercial production. Particular efforts are being made at all levels of management to minimize costs and maximize yields, while applying sound and reasonable agricultural practices in the conduct of the subsidiary's operations.

PERSONNEL

The total personnel employed by the Company and its consolidated subsidiaries at December 31, 1975 decreased by 5 from that of the prior year. Summary of the changes is as follows:

	December 31,		Increase
	1975	1974	(Decrease)
The Superior			
Oil Company . . .	1,939	1,863	76
Superior Farming			
Company	979	1,070	(91)
Canadian Superior			
Oil Ltd.	423	413	10
	<u>3,341</u>	<u>3,346</u>	<u>(5)</u>

During the year two changes in management occurred. Mr. J. J. Bugno was elected Comptroller and Mr. C. L. Barney was elected a Vice President of the Company. Retiring in 1975 were 54 employees with an average length of service of 29.5 years.



President

March 19, 1976

Consolidated Statement of Income*For the Years Ended December 31, 1975 and 1974*

	1975	1974
OPERATING REVENUES	\$382,149,000	\$332,651,000
OPERATING EXPENSES		
Operating costs	76,955,000	64,584,000
General and administrative	24,819,000	18,181,000
Geological and geophysical	29,885,000	28,835,000
Intangible development costs	85,325,000	58,335,000
Nonproductive leases and other properties abandoned	17,451,000	8,008,000
Depletion, depreciation and amortization	33,120,000	31,253,000
Taxes (other than income)	19,289,000	18,094,000
	<u>286,844,000</u>	<u>227,290,000</u>
INCOME FROM OPERATIONS	95,305,000	105,361,000
OTHER INCOME (EXPENSE)		
Dividends and miscellaneous income	10,475,000	14,284,000
Gain on sale of 2,710,000 shares of Texaco stock (Note 1)	24,251,000	—
Equity in earnings of affiliated companies (Note 1)	3,798,000	3,432,000
Interest expense	(11,588,000)	(14,242,000)
	<u>26,936,000</u>	<u>3,474,000</u>
INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEMS	122,241,000	108,835,000
Income taxes (Note 5)	(54,804,000)	(33,077,000)
Minority interest in Canadian Superior Oil Ltd.	(15,511,000)	(14,761,000)
INCOME BEFORE EXTRAORDINARY ITEMS	51,926,000	60,997,000
EXTRAORDINARY ITEMS		
Equity in extraordinary items of affiliated company (net of \$180,000 minority interest) (Note 1)	3,416,000	—
Reduction in Federal income tax expense resulting from use of prior years' loss carryforwards (Note 5)	—	7,000,000
NET INCOME	<u>\$ 55,342,000</u>	<u>\$ 67,997,000</u>
EARNINGS PER AVERAGE SHARE OUTSTANDING		
Income before extraordinary items	\$ 12.94	\$ 15.15
Extraordinary items	.85	1.74
Net income	<u>\$ 13.79</u>	<u>\$ 16.89</u>

The accompanying summary and notes are an integral part of the financial statements.

Consolidated Balance Sheet

December 31, 1975 and 1974

	1975	1974
ASSETS		
CURRENT ASSETS		
Cash (Note 2)	\$ 20,551,000	\$ 19,165,000
Short-term investments, principally certificates of deposit	69,790,000	41,772,000
Accounts receivable	83,935,000	64,515,000
Inventories, principally materials and supplies	33,770,000	23,361,000
Prepaid expenses	8,764,000	6,608,000
	<u>216,810,000</u>	<u>155,421,000</u>
INVESTMENTS (Note 1)		
Affiliated companies		
McIntyre Mines Limited (owned 40.5% and 39.5% in 1975 and 1974, respectively)	90,730,000	83,111,000
Western Platinum Limited (owned 24.0%)	13,296,000	14,263,000
Austral Oil Company Incorporated (owned 20.0%)	14,716,000	—
Marketable securities, at cost		
Texaco Inc.	16,155,000	60,927,000
Other	27,641,000	25,107,000
	<u>162,538,000</u>	<u>183,408,000</u>
PROPERTIES, PLANT AND EQUIPMENT, at cost		
Undeveloped oil and gas properties	119,018,000	112,807,000
Producing oil and gas properties	126,495,000	117,579,000
Wells and related production equipment (exclusive of intangible development costs)	294,968,000	278,464,000
Gas plants and related facilities	85,766,000	80,592,000
Agricultural properties and related facilities (Notes 2 and 7) ..	116,177,000	116,387,000
Other properties and equipment	70,516,000	54,504,000
	<u>812,940,000</u>	<u>760,333,000</u>
Less — Accumulated depletion, depreciation and amortization	<u>316,525,000</u>	<u>290,137,000</u>
	<u>496,415,000</u>	<u>470,196,000</u>
DEFERRED CHARGES AND OTHER ASSETS	<u>11,019,000</u>	<u>13,111,000</u>
	<u><u>\$886,782,000</u></u>	<u><u>\$822,136,000</u></u>

The accompanying summary and notes are an integral part of the financial statements.

	1975	1974
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities on long-term debt (Note 2)	\$ 13,581,000	\$ 17,194,000
Short-term notes payable (Note 2)	9,723,000	8,555,000
Natural gas sales subject to refund (Note 3)	31,645,000	—
Accounts payable	53,987,000	37,937,000
Federal and foreign income taxes (Note 5)	26,142,000	13,172,000
Other current liabilities	4,942,000	5,078,000
	<u>140,020,000</u>	<u>81,936,000</u>
LONG-TERM DEBT (Note 2)	96,746,000	130,379,000
NATURAL GAS SALES SUBJECT TO REFUND (Note 3)		
Including \$2,184,000 applicable to royalty and working interest owners	—	30,074,000
DEFERRED FEDERAL AND FOREIGN INCOME TAXES (Note 5) ..	27,082,000	20,145,000
MINORITY INTEREST IN CANADIAN SUPERIOR OIL LTD.	81,106,000	65,413,000
COMMITMENTS AND CONTINGENCIES (Notes 1 and 6)		
SHAREHOLDERS' EQUITY (Note 4)		
Preferred stock, \$1.00 par value, 5,000,000 shares authorized, none issued or outstanding	—	—
Common stock \$2.50 par value	10,625,000	10,625,000
	1975	1974
Shares authorized	10,000,000	10,000,000
Shares issued	4,250,140	4,250,140
Shares in treasury	240,465	232,965
Shares outstanding	4,009,675	4,017,175
Additional paid-in capital	1,639,000	1,636,000
Retained earnings (Note 2)	566,314,000	517,393,000
Treasury stock, at cost	(36,750,000)	(35,465,000)
	<u>541,828,000</u>	<u>494,189,000</u>
	<u>\$886,782,000</u>	<u>\$822,136,000</u>

Consolidated Statements of Retained Earnings and Additional Paid-In Capital

For the Years Ended December 31, 1975 and 1974

	1975	1974
RETAINED EARNINGS		
Balance at beginning of year	\$517,393,000	\$455,033,000
Net income	55,342,000	67,997,000
Cash dividends paid on common stock, \$1.60 and \$1.40 per share in 1975 and 1974, respectively	<u>(6,421,000)</u>	<u>(5,637,000)</u>
Balance at end of year (Note 2)	<u>\$566,314,000</u>	<u>\$517,393,000</u>
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of year	\$ 1,636,000	\$ 1,552,000
Excess of issue price over par value of Canadian Superior Oil Ltd. capital stock issued under stock option plan (Note 4)	<u>3,000</u>	<u>84,000</u>
Balance at end of year	<u>\$ 1,639,000</u>	<u>\$ 1,636,000</u>

The accompanying summary and notes are an integral part of the financial statements.

Consolidated Statement of Changes in Financial Position*For the Years Ended December 31, 1975 and 1974*

	1975	1974
RESOURCES PROVIDED		
From operations		
Income before extraordinary items	\$ 51,926,000	\$ 60,997,000
Items not using (providing) resources		
Depletion, depreciation, amortization and abandoned properties	50,571,000	39,261,000
Equity in earnings of affiliated companies (Note 1)	(3,798,000)	(3,432,000)
Deferred income taxes	6,936,000	757,000
Minority interest in Canadian Superior Oil Ltd.	15,511,000	14,761,000
Gain on sale of Texaco stock	(24,251,000)	—
Other (net)	1,095,000	1,666,000
	<u>97,990,000</u>	<u>114,010,000</u>
Extraordinary item — Federal income tax expense eliminated by prior years' loss carryforwards	—	7,000,000
Proceeds from long-term debt	27,439,000	28,400,000
Proceeds from sale of Texaco stock	69,023,000	—
	<u>194,452,000</u>	<u>149,410,000</u>
RESOURCES APPLIED		
Additions to properties, plant and equipment		
Oil and gas properties	27,315,000	41,903,000
Wells and related production equipment	28,427,000	16,212,000
Agricultural properties and equipment	5,751,000	12,184,000
Other	18,902,000	13,228,000
Retirement of long-term debt	64,685,000	38,993,000
Increase (decrease) in current maturities on long-term debt ...	(3,613,000)	7,775,000
Natural gas sales subject to refund reclassified to current	30,074,000	—
Cash dividends paid on common stock	6,421,000	5,637,000
Investment in Austral Oil Company Incorporated	14,207,000	—
Investment in McIntyre Mines Limited	1,345,000	66,000
Purchase of treasury stock from the Estate of W. M. Keck	1,285,000	2,546,000
Other (net)	(3,652,000)	901,000
	<u>191,147,000</u>	<u>139,445,000</u>
Increase in working capital	<u>\$ 3,305,000</u>	<u>\$ 9,965,000</u>
ANALYSIS OF INCREASE IN WORKING CAPITAL		
Cash	\$ 1,386,000	\$ (14,206,000)
Short-term investments	28,018,000	22,861,000
Accounts receivable	19,420,000	20,455,000
Inventories and prepaid expenses	12,565,000	12,622,000
Current maturities on long-term debt	3,613,000	(7,775,000)
Short-term notes payable	(1,168,000)	(4,877,000)
Natural gas sales subject to refund	(31,645,000)	—
Accounts payable and other current liabilities	(15,914,000)	(13,770,000)
Federal and foreign income taxes	(12,970,000)	(5,345,000)
Increase in working capital	<u>\$ 3,305,000</u>	<u>\$ 9,965,000</u>

The accompanying summary and notes are an integral part of the financial statements.

Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all domestic and foreign subsidiaries owned more than fifty percent including Canadian Superior Oil Ltd. (Canadian Superior) which is 53.3 percent owned. The minority interest shareholders' equity in the net assets of Canadian Superior is set forth in the Consolidated Balance Sheet and their equity in Canadian Superior's net income has been deducted in arriving at consolidated net income. All significant intercompany accounts and transactions have been eliminated.

Superior's investments in all other companies owned twenty percent or more are stated at cost as adjusted for Superior's share of reported earnings or losses less amortization of excess costs. Investments in all other companies are carried at cost.

FOREIGN CURRENCY TRANSLATION

Current assets and liabilities and long-term debt are translated at year-end exchange rates. All other assets and liabilities are translated at historical rates. Revenue and expense accounts are translated at current rates in effect during the year other than depletion, depreciation and abandonments which are translated at historical rates.

Exchange gains and (losses) of (\$2,800,000) and \$401,000 were charged to income in 1975 and 1974, respectively.

INCOME TAXES

A consolidated Federal income tax return is filed by Superior and its wholly owned domestic subsidiaries.

Certain items of income and expense are recognized in different periods for financial reporting and U.S. Federal income tax reporting purposes. To eliminate the effect of these timing differences, Superior follows tax allocation principles in the determination of the appropriate tax expense for each year. The most significant timing differences recognized are equity in the earnings of affiliates and geophysical expense. Investment tax credits are recognized as a reduction of Federal income tax expense when utilized for tax reporting purposes.

Deferred Canadian income taxes are provided as a result of claiming capital cost allowances, oil and gas lease acquisitions, exploration and drilling costs and other allowable expenses for tax purposes in differing amounts from those written off for financial reporting purposes.

Foreign withholding taxes are provided on the Company's equity in the earnings of affiliates and subsidiaries which are expected to be received as dividends. Such taxes are reflected on the balance sheet as a deferred liability.

INVENTORIES

Materials and supplies are valued at average cost. Stocks of crude oil, natural gasoline and liquid petroleum gases are valued at current market price.

UNDEVELOPED LEASES

The acquisition costs of undeveloped oil and gas properties are capitalized. Subsequently, such acquisition costs are either: (a) transferred to producing oil and gas properties when a lease becomes productive, or (b) charged to expense prior to or when a lease is surrendered or relinquished. Rentals of undeveloped oil and gas properties are charged to expense when paid.

DEPLETION AND DEPRECIATION

In all areas except Canada, depletion and depreciation of producing oil and gas properties and related equipment are calculated on an individual property basis using the unit-of-production method. Depreciation of other plant and equipment is calculated on the straight-line method in amounts which, in the opinion of management, are adequate to allocate the cost of such properties over the established useful lives.

In Canada, depletion of producing oil and gas properties is calculated on a composite basis using the unit-of-production method. Depreciation of wells and related production equipment and gas plants and related facilities is calculated on a composite basis using the declining balance method at rates of thirty percent and ten percent, respectively. Depreciation of other plant and equipment is calculated using the declining balance method at rates which, in the opinion of management, are adequate to allocate the cost of such properties over the established useful lives.

EXPLORATORY AND DEVELOPMENT COSTS

Exploratory and development costs, including intangible development costs on productive and nonproductive wells and geological and geophysical costs, are charged to expense in the year incurred. Tangible equipment is capitalized and depreciated as set forth above under Depletion and Depreciation.

AGRICULTURAL OPERATIONS

Expenditures incurred in the acquisition and development of productive permanent crops (such as citrus, nuts and fruits) are capitalized until the trees and vines reach maturity or commercial production. Beginning with the first year of commercial production, development costs are amortized on the straight-line method over the estimated productive lives of the groves and vineyards.

Expenses required to maintain the groves and vineyards and to harvest the crops are matched with appropriate sales and revenues. Crop expenses that relate to harvests of a future period are included in prepaid expenses on the consolidated balance sheet.

In connection with the sale of certain crops, the final settlement price which the Company receives is not determined until the purchaser has sold the crop. Revenues are recognized at the time the crop is sold to the purchaser based on the lower of current market price or the price estimated to be received at the final settlement date.

This summary is an integral part of the financial statements.

Notes to Consolidated Financial Statements

(1) INVESTMENTS —

Affiliated Companies

The accounts of Canadian Superior Oil Ltd. (Canadian Superior), 53.3 percent owned by Superior, are included in the consolidated financial statements. At December 31, 1975, Superior's equity in the net assets of Canadian Superior was \$15,198,000 less than its investment therein. Such amount has been included in producing oil and gas properties and is being amortized over the next 12 years. Amortization was \$1,266,000 in both 1975 and 1974.

Investments in McIntyre Mines Limited (McIntyre), Western Platinum Limited (Western Platinum) and Austral Oil Company Incorporated (Austral) are accounted for on the equity basis. An analysis of Superior's investment in these affiliated companies is presented below (in thousands of U.S. dollars):

	<u>Total</u>	<u>McIntyre (owned 40.5%(a))</u>	<u>Western Platinum (owned 24.0%)</u>	<u>Austral (owned 20.0%)</u>
Transactions of prior years				
Cost of capital stock	96,145	90,250	5,895	—
Cash advances	7,728	—	7,728	—
Equity in earnings	10,412	9,740	672	—
Dividends received	(8,336)	(8,336)	—	—
Amortization of excess cost(b)	(10,558)	(10,434)	(124)	—
Investment at December 31, 1973	95,391	81,220	14,171	—
Cost of capital stock	66	66	—	—
Equity in 1974 earnings	4,998	3,267	1,731	—
Amortization of excess cost	(1,566)	(1,442)	(124)	—
Repayment of cash advances	(1,515)	—	(1,515)	—
Investment at December 31, 1974	97,374	83,111	14,263	—
Cost of capital stock	15,552	1,345	—	14,207
Equity in 1975 earnings before extraordinary items	5,836	4,753	252	831
Equity in extraordinary items(c)	3,596	3,596	—	—
Dividends received	(483)	(483)	—	—
Amortization of excess cost	(2,038)	(1,592)	(124)	(322)
Revaluation of cash advances(d)	(1,095)	—	(1,095)	—
Investment at December 31, 1975	<u>118,742</u>	<u>90,730</u>	<u>13,296</u>	<u>14,716</u>
Quoted market price at December 31, 1975 ...		<u>38,700</u>	Not Quoted	<u>9,500</u>
Unamortized excess cost at December 31, 1975		<u>33,426</u>	<u>2,103</u>	<u>5,523</u>
Remaining years over which excess cost will be amortized on straight-line basis		<u>21</u>	<u>17</u>	<u>14</u>

(a) McIntyre capital stock is owned 36.2% by Superior and 4.3% by Canadian Superior.

(b) The term "excess cost" is used to denote the amount by which the cost of Superior's investment in the capital stock of each of its affiliates exceeded Superior's equity in the affiliate's net assets at the date of acquisition.

(c) Includes \$2,406,000 applicable to a reduction in deferred income taxes resulting from prior years' losses and \$1,190,000 applicable to a restatement made by McIntyre for 1974 resulting from a Falconbridge Nickel Mines Limited tax adjustment.

(d) On September 22, 1975 the South African Rand was devalued by 17.9%. As a result, the Company's cash advances to Western Platinum, which were made and are repayable in Rands, have been adjusted to reflect the devaluation.

On January 27, 1975 the Company purchased from Austral 835,700 shares of unissued Austral common stock, at \$17 per share. In addition, Superior received a warrant from Austral to purchase 240,000 shares of Austral common stock at \$25 per share, exercisable for a five-year period beginning January 27, 1977. The Company also agreed to loan to Austral, at Austral's option exercisable on January 27, 1977, up to \$6 million for 5 years, payable at maturity with interest at the prime rate.

The quoted market price of the Company's investment in McIntyre was \$38,700,000 at December 31, 1975, approximately \$52,000,000 less than the carrying value of such investment

as set forth in the consolidated balance sheet. In the opinion of management of the Company, the decline in the quoted market price of McIntyre is a temporary decline and the Company's equity in the value of the underlying assets of McIntyre and Falconbridge Nickel Mines Limited (Falconbridge) (owned 37.3% by McIntyre) is in excess of the Company's investment in McIntyre.

Summarized financial information relating to McIntyre (a Canadian corporation, audited by auditors other than Arthur Andersen & Co.) and Austral (a U.S. corporation, audited by Arthur Andersen & Co.) is set forth below:

	<i>McIntyre (owned 40.5%)</i> <i>(in thousands of Canadian dollars)</i>		<i>Austral (owned 20.0%)</i> <i>(in thousands of U.S. dollars)</i>	
	<i>As of December 31,</i>		<i>As of December 31,</i>	
	<i>1975</i>	<i>1974(b)</i>	<i>1975</i>	<i>1974</i>
Current assets	16,167	27,485	6,195	6,605
Investment in Falconbridge, quoted market price \$53,604,000 at December 31, 1975	111,947	112,552	—	—
Properties, plant and equipment	78,960	71,048	60,676	48,649
Other assets	10,635	11,549	206	246
	<u>217,709</u>	<u>222,634</u>	<u>67,077</u>	<u>55,500</u>
Current liabilities	19,823	13,795	1,785	3,073
Long-term liabilities	47,432	74,739	19,331	24,827
Shareholders' equity	150,454	134,100	45,961	27,600
	<u>217,709</u>	<u>222,634</u>	<u>67,077</u>	<u>55,500</u>
	<i>Year Ended December 31,</i>		<i>Year Ended December 31,</i>	
	<i>1975</i>	<i>1974(b)</i>	<i>1975</i>	<i>1974</i>
Revenues	95,736	48,366	19,113	18,021
Equity in earnings of Falconbridge	1,243	11,181	—	—
Expenses	(85,470)	(47,229)	(14,959)	(14,769)
Income before extraordinary item	11,509	12,318	4,154	3,252
Extraordinary item(a)	6,029	—	—	—
Net income	<u>17,538</u>	<u>12,318</u>	<u>4,154</u>	<u>3,252</u>

(a) Reduction in deferred income taxes resulting from prior years' losses.

(b) Restated to reflect McIntyre's equity in a restatement of Falconbridge resulting from a reduction in 1974 income and mining taxes.

McIntyre and Canadian Superior are subject to controls on prices, profits, compensation and dividends instituted by the Canadian Federal Government in the Anti-Inflation Act effective October 14, 1975. At this time there are a number of uncertainties concerning implementation of the program, therefore, the impact on the future operations of McIntyre and Canadian Superior cannot be readily determined.

Marketable Securities

A summary of the Company's marketable securities is set forth below (in thousands of dollars).

	<i>December 31,</i> <i>1975</i>		<i>December 31,</i> <i>1974</i>	
	<i>Market</i>	<i>Cost</i>	<i>Market</i>	<i>Cost</i>
Texaco Inc. (949,072 shares in 1975 and 3,659,072 shares in 1974)	22,185	16,155	76,400	60,927
Other	22,205	27,641	17,300	25,107
	<u>44,390</u>	<u>43,796</u>	<u>93,700</u>	<u>86,034</u>

At December 31, 1975, the gross unrealized gains of all marketable securities were \$9,014,000 and the gross unrealized losses were \$8,420,000. The net realized gains included in the consolidated statements of income were \$24,482,000 in 1975 and \$261,000 in 1974. The cost of securities sold was determined on a specific share basis.

(2) LONG-TERM AND SHORT-TERM DEBT —

Long-term debt at December 31, comprises:

	Amounts in Thousands of Dollars	
	1975	1974
The Superior Oil Company and Subsidiaries Other than Superior Farming Company		
Debentures, 3¾%, due July 1, 1981 — \$1,500,000 semiannual sinking fund requirements	15,046	16,880
Notes payable to banks		
Prime rate through May 31, 1977 and thereafter one-fourth of one percent above prime rate, principal due in semiannual installments of \$3,686,000 commencing on June 1, 1976(a)	16,800	25,800
One-fourth of one percent above prime rate, principal due in semiannual installments of \$1,714,000 commencing on April 1, 1977	12,000	—
Prime rate through December 31, 1975 and thereafter one-fourth of one percent above prime rate, principal due in semiannual installments of \$1,667,000(a)	—	18,333
Eurodollar, one percent above the quoted rate in London, principal due in semiannual installments of \$1,361,000(a)	—	13,610
One-fourth of one percent above prime rate, principal due in semiannual installments of \$2,500,000(a)	—	7,500
Advances from gas purchasers, noninterest bearing	16,678	15,552
Superior Farming Company		
8¾% note payable to an insurance company, principal due in annual installments of \$250,000 commencing January 1, 1977 through January 1, 1991 with balance due on January 1, 1992, secured by land	16,891	14,068
6½% notes payable to another company, principal due in annual installments of \$1,563,000 through 1987, secured by land	18,753	20,316
Note payable to a bank at one-half of one percent above prime rate, principal balance due on November 14, 1980	11,100	—
Note payable to a bank at one-half of one percent above prime rate, principal due in annual installments of \$800,000(b)	—	2,400
Notes payable to a bank at one-half of one percent above prime rate, principal balance due on May 15, 1976(b)	—	9,500
Other notes payable and capitalized lease obligation, interest either at stated rates ranging from 5¾% to 10% or at varying rates at one-half percent to one percent above prime rate	3,059	3,614
	110,327	147,573
Less current maturities	13,581	17,194
	96,746	130,379

(a) During 1975 Superior made prepayments on outstanding long-term debt totalling \$38,749,000.

(b) Refinanced by note payable due November 14, 1980.

The aggregate amounts of long-term debt due within five years from December 31, 1975 are as follows:

Year	Amounts in Thousands of Dollars
1976	13,581
1977	20,237
1978	12,012
1979	9,731
1980	19,413

At December 31, 1975, \$2,954,000 principal amount of cancelled debentures had been applied to the 1976 sinking fund requirements. Outstanding debentures may be redeemed, subject to certain limitations, in whole or in part at any time upon payment of stipulated premiums.

The loan agreement with several banks in the amount of \$12,000,000 at December 31, 1975 contains, among other things, provisions setting forth working capital and long-term debt to equity requirements and restrictions on other borrowings and pledging of assets. Payment of dividends on common stock and advances to subsidiaries cannot exceed \$100,000,000 plus earnings since December 31, 1973.

At December 31, 1975, approximately \$376,157,000 of consolidated retained earnings was restricted as to payment of dividends under the provisions of Superior's debenture and loan agreements.

Although not a written provision of its long-term loan agreements, the Company maintains compensating cash balances equal to a specified percentage of the outstanding balance of certain bank loans. At December 31, 1975 the aggregate amount of such compensating balances was approximately \$7,700,000.

The short-term notes payable outstanding at December 31, 1975 and 1974 are applicable to Superior Farming Company under a short-term loan agreement whereby it may borrow an aggregate of \$10,000,000 at the bank's prime rate to finance its annual crop programs. These notes are due on demand, or if not demand, the maturity stated on the note. A twenty percent compensating cash balance (\$1,900,000 at year-end) must be maintained on the outstanding balance. In addition, The Superior Oil Company borrowed \$12,000,000 on a short-term note in March 1975 and repaid same in April 1975 from the proceeds of a long-term loan agreement, referred to above. Listed below are pertinent facts concerning short-term debt:

	<i>Amounts in Thousands of Dollars</i>	
	<i>1975</i>	<i>1974</i>
Balance outstanding at year-end	9,723	8,555
Maximum outstanding at any month-end	20,061	9,823
Average outstanding during the year	9,613	6,741
Weighted average interest rate (interest paid divided by weighted average principal outstanding)	7.79%	10.82%

(3) NATURAL GAS SALES SUBJECT TO REFUND —

A decision rendered by the United States Supreme Court in 1954 held that the sale by producers of natural gas for resale in interstate commerce is subject to the jurisdiction of the Federal Power Commission (FPC). As a result, it was necessary that Superior file rate schedules with the FPC and obtain approval of the rates for all gas sales in interstate commerce. Many of these rate schedules set forth prices which were subject to refund until such time as the FPC made a determination of "just and reasonable" rates. During 1974 the United States Supreme Court rendered decisions affirming certain earlier FPC opinions covering most of the areas in which Superior makes interstate gas sales. These opinions established rates for prospective gas sales and provided a basis for the disposition of past sales which had previously been considered to be subject to refund. The opinions also provide for an additional reduction in the refund obligation by the commitment of newly discovered gas reserves to interstate sales within time limits specified in the opinions. In 1974 Superior restated its prior years' earnings to include the applicable amounts of gas sales in the years the proceeds were received and the \$7,024,000 applicable to reserves committed under the work-off provisions in 1970 through 1973, the years the reserves were discovered. At December 31, 1975, the Company has a remaining refund obligation of \$31,645,000 including accrued interest of \$15,650,000 and \$2,140,000 applicable to royalty and working interest owners.

FPC Opinions 699 and 699H issued during 1974 established a nationwide base rate for new interstate sales of fifty cents per Mcf and provided that new gas reserves committed to sales

contracts under such opinions are not eligible to reduce the refund liability under the work-off provisions of prior opinions. Superior and other producers appealed and in October 1975 the Fifth Circuit Court of Appeals upheld this provision of the opinions. A Petition for Rehearing has been denied and Superior and the other producers are now in the process of seeking review of the decision by the Supreme Court.

Subsequent to 1973 Superior elected to commit new gas reserves to sales contracts under Opinions 699 and 699H because of the substantially higher price received under these opinions as compared to the amounts that would be retained if the reserves were committed under the work-off provisions of the prior opinions. If the appellate efforts of Superior and the other producers are unsuccessful, Superior anticipates that it will be required to refund during 1976 the remaining amount of the refund obligation, together with accrued interest.

In December 1975 FPC Opinion 749 was issued and provides "just and reasonable" national rates for sales of natural gas from wells commenced prior to January 1, 1973. However, the opinion also provides that gas committed to sales contracts under opinions with work-off provisions would not be eligible for work-off credit on those reserves delivered after December 31, 1975 if the Company files for the increased rates available under this opinion. Superior and other producers have appealed this provision of the opinion.

Superior will file for the increased rates available under Opinion 749 even though work-off credits may be lost inasmuch as the national rate under Opinion 749 would have a favorable effect on the price received for gas sold under such contracts. If the appeal by Superior and other producers is unsuccessful, it is anticipated the Company's refund obligation could increase by \$2,261,000, the amount applicable to reserves committed under opinions with work-off provisions and not delivered before January 1, 1976, together with interest thereon of \$699,000.

(4) STOCK OPTION AND STOCK BONUS PLANS —

The Superior Oil Company

In 1969, the shareholders approved a Qualified Stock Option Plan under which options to purchase shares of the Company's common stock may be granted to certain employees at a price not less than the fair market value at date of grant, exercisable after one year and not later than five years from date of grant. A maximum of 80,000 shares may be granted under this plan. During 1974 options were granted to purchase 12,100 shares at \$161.75 per share, all of which were outstanding at December 31, 1975. No options have been exercised and the outstanding options expire July 24, 1979. There have been no other options granted under the plan.

The shareholders also approved a Restricted Stock Bonus Plan under which stock bonuses (not to exceed 4,000 shares annually) may be awarded through calendar year 1978 to key employees. A total of 8,000 shares of the Company's treasury stock has been awarded in prior years. No awards were made in 1975 or 1974.

Canadian Superior Oil Ltd.

Under Canadian Superior's stock option plan, options have been granted to certain of its officers and key employees to purchase shares of Canadian Superior capital stock at prices which were not lower than 90 percent of the market value at date of grant. No options were granted during 1975. During 1974 options on 45,000 shares were granted at \$20.70 (Canadian) and options previously granted on 27,800 shares were submitted for cancellation. Options on 300 shares and 5,000 shares were exercised during 1975 and 1974, respectively. At December 31, 1975 options to purchase 46,230 shares, the majority of which expire in 1984, were outstanding and 51,700 shares were available for future grants. The effect of the transactions applicable to Superior's interest in Canadian Superior has been reflected in the additional paid-in capital account of Superior.

(5) INCOME TAXES —

The Company's income tax expense for 1975 and 1974 consisted of the following:

	<i>Amounts in Thousands of Dollars</i>	
	<u>1975</u>	<u>1974</u>
United States Federal income taxes		
Current	11,700	2,800
Deferred	8,100	—
Eliminated by use of prior years' loss carryforwards	—	7,000
	<u>19,800</u>	<u>9,800</u>
Foreign income taxes (primarily Canadian)		
Current	35,530	21,484
Deferred	(1,163)	757
	<u>34,367</u>	<u>22,241</u>
State and local income taxes	637	1,036
	<u>54,804</u>	<u>33,077</u>

Through December 31, 1974 the Company had utilized all of its prior years' loss carryforwards available for financial reporting purposes. Prior years' loss carryforwards utilized in 1975 for tax reporting purposes did not result in a reduction of Federal income tax expense for financial reporting purposes as such amounts are applicable primarily to timing differences of prior years. At January 1, 1976 the Company had available approximately \$8,000,000 of investment tax credits, the majority of which expire after 1977, which will be recognized as a reduction of Federal income tax expense when utilized for tax reporting purposes. The consolidated Federal income tax returns of Superior for the years 1970 through 1973 are presently being examined by the Internal Revenue Service.

A reconciliation of the income tax expense computed by applying the 48 percent U.S. Federal income tax rate to the Company's income before income taxes, minority interest and extraordinary items to the Company's actual income tax expense is presented below:

	<i>Amounts in Thousands of Dollars</i>	
	<u>1975</u>	<u>1974</u>
Federal income tax expense computed at 48 percent	58,676	52,241
Increase (reduction) resulting from —		
Excess of depletion of oil and gas properties for income tax purposes over depletion for financial purposes	(6,356)	(18,678)
Domestic dividend received deduction	(1,873)	(3,425)
Investment tax credit	(2,400)	—
Minimum preference tax	5,400	2,800
Other	1,357	139
Income tax expense	<u>54,804</u>	<u>33,077</u>

Recent income tax legislation in both the United States and Canada has increased significantly the tax burden on the oil and gas industry. The Tax Reduction Act of 1975 (Act), enacted in March 1975, substantially reduced the percentage depletion allowance for Federal income tax purposes for oil and gas produced after December 31, 1974, as set forth in the table above. The Act also effected a number of adverse changes with respect to foreign oil and gas activities which could result in the Company having a higher effective tax rate in future years. Recent amendments to the Canadian income tax act, which deny the deduction from income for royalty and similar payments to the government and impose limitations on the deduction of certain development expenses and depletion allowances, have increased substantially the income taxes of the resource industry in Canada.

The provision for deferred taxes results from timing differences in the recognition of income and expense for tax and financial reporting purposes. The deferred provision in 1975 is due primarily to the utilization of the net operating loss carryforward for income tax reporting purposes which is applicable to timing differences (primarily earnings of affiliates and geophysical expense) in prior years.

(6) COMMITMENTS AND CONTINGENCIES —

Retirement Income Plans

The Company and its wholly owned subsidiaries have retirement income plans covering substantially all of their employees, including certain employees in foreign countries and certain employees of Canadian Superior Oil Ltd. Pension expenses for 1975 and 1974 were \$5,459,000 and \$3,954,000, respectively. The Company's policy is to fund pension cost accrued.

During 1975 certain changes were made in the vesting and benefit provisions of the plans and the actuarial assumptions used in the computation of Company contributions. The Company also changed from the unit credit funding method to the aggregate cost funding method. The calculation of past service costs and the unfunded prior service cost applicable thereto, reported to be \$10,527,000 at December 31, 1974, is not dealt with separately using the aggregate cost method but is a component of the future benefit contributions accrued and funded each year. The increase in pension expenses in 1975 is primarily due to the changes in the provisions of the plans, assumptions used and the change in the actuarial method.

The actuarially determined value of vested benefits exceeded pension plan assets, at market, by \$11,000,000 at December 31, 1974, the latest date for which such information is available. On an actuarial basis, which recognizes only a portion of each year's market gain or loss, the vested benefits exceeded the pension plan assets at December 31, 1974 by only \$900,000.

The Pension Reform Act of 1974, which became effective January 1, 1976, requires certain additional modifications to the plans. Such modifications will be made during 1976, effective retroactively to January 1, 1976. Although actuarial computations of the cost of such modifications are not yet available, in the Company's opinion the effect on the Company's annual pension expense will not be significant.

Contingencies

The Company recently has been informed that in 1975 a court in the Republic of Venezuela has entered a Sentencing Decree against "The Superior Oil Company of California" in favor of the Venezuelan Nation for approximately \$92,000,000 and interest in an unspecified amount. This decree is related to the previously reported claim of the Venezuelan Government for income taxes and penalty, based upon a 1964 transaction negotiated and consummated in the United States with Texaco Inc., whereby the Company exchanged all of its stock in The Superior Oil Company of Venezuela, a wholly owned Delaware subsidiary, for Texaco stock. Counsel for the Company continue to hold their original view that the claim for taxes and penalty is wholly without merit and that the purported Sentencing Decree is without any effect under the circumstances.

There are other suits and claims against the Company, none of which in the opinion of management and counsel, will have a material effect on the Company.

(7) WRITEDOWN OF CERTAIN AGRICULTURAL PROPERTIES —

Superior capitalizes all expenditures incurred in the acquisition and development of permanent crops until the trees and vines reach maturity or commercial production. The horticultural and economic status of all permanent crops are continuously reviewed to determine that the total capitalized costs do not exceed an amount which can reasonably be expected to be realized in the future.

During 1975 a \$6,410,000 provision was made to reduce the capitalized costs of certain crops, principally wine grapes.

Auditors' Report

To the Shareholders and Board
of Directors,
The Superior Oil Company:

We have examined the consolidated balance sheet of The Superior Oil Company (a Nevada corporation) and subsidiary companies as of December 31, 1975 and 1974, and the related consolidated statements of income, retained earnings and additional paid-in capital, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Canadian Superior Oil Ltd., a consolidated subsidiary, or McIntyre Mines Limited, an affiliate, which statements were examined by other auditors whose reports thereon have been furnished to us. Amounts for such companies included in the consolidated financial statements were 36.6% and 32.7% of consolidated assets and 36.7% and 22.7% of consolidated net income for 1975 and 1974, respectively. Our opinion expressed herein, insofar as it relates to the amounts included for those companies, is based solely upon the reports of the other auditors.

In our opinion, based on our examination and the reports of other auditors, the financial statements referred to above present fairly the financial position of The Superior Oil Company and subsidiary companies as of December 31, 1975 and 1974, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Houston, Texas
March 5, 1976

Five-Year Summary

SUMMARY OF OPERATIONS (amounts in thousands of dollars)	1975	1974	1973	1972	1971
OPERATING REVENUES	382,149	332,651	243,535	205,953	191,450
OPERATING EXPENSES					
Operating costs	76,955	64,584	55,209	46,620	41,385
General and administrative	24,819	18,181	15,145	14,345	14,107
Geological and geophysical	29,885	28,835	21,879	23,487	21,880
Intangible development costs	85,325	58,335	41,065	42,003	38,878
Depletion, depreciation, amortization and abandonments	50,571	39,261	40,174	37,773	37,911
Taxes (other than income)	19,289	18,094	11,367	11,141	10,225
	286,844	227,290	184,839	175,369	164,386
INCOME FROM OPERATIONS	95,305	105,361	58,696	30,584	27,064
OTHER INCOME (EXPENSE)					
Dividends and miscellaneous income	34,726	14,284	15,059	9,354	9,203
Equity in affiliates	3,798	3,432	6,534	(4,639)	(3,998)
Interest expense	(11,588)	(14,242)	(10,719)	(7,136)	(7,444)
	26,936	3,474	10,874	(2,421)	(2,239)
INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEMS	122,241	108,835	69,570	28,163	24,825
Income taxes	(54,804)	(33,077)	(19,688)	(6,672)	(5,583)
Minority interest in Canadian Superior Oil Ltd. ..	(15,511)	(14,761)	(8,099)	(3,982)	(2,943)
INCOME BEFORE EXTRAORDINARY ITEMS	51,926	60,997	41,783	17,509	16,299
EXTRAORDINARY ITEMS					
Reduction in Federal income tax expense resulting from use of prior years' loss carryforwards	—	7,000	6,000	—	—
Equity in extraordinary items of affiliated company	3,416	—	1,002	(8,356)	—
NET INCOME	55,342	67,997	48,785	9,153	16,299
PER SHARE DATA (in dollars)					
Income before extraordinary items	12.94	15.15	10.36	4.34	4.03
Extraordinary items	.85	1.74	1.74	(2.07)	—
Net income	13.79	16.89	12.10	2.27	4.03
Average shares outstanding	4,012,050	4,026,092	4,032,800	4,034,508	4,046,967
RETAINED EARNINGS					
Retained earnings, beginning of year	517,393	455,033	411,894	408,389	397,758
Net income	55,342	67,997	48,785	9,153	16,299
Dividends paid on common stock (\$1.60 per share in 1975 and \$1.40 per share in prior years) ..	(6,421)	(5,637)	(5,646)	(5,648)	(5,668)
Retained earnings, end of year	566,314	517,393	455,033	411,894	408,389

Management's Analysis and Discussion of the Summary of Operations

1975

OPERATING REVENUES

Operating revenues increased from \$332.7 million in 1974 to \$382.2 million in 1975. Revenues from crude oil and condensate increased \$3.6 million primarily due to increased prices, partially offset by declining production. Revenues from natural gas increased \$43.2 million primarily due to upward price redeterminations negotiated for certain intrastate contracts in the United States and a general improvement in Canadian prices.

OPERATING COSTS

Operating costs increased \$12.4 million primarily due to an increase in oil and gas expenditures for pumping, fuel, maintenance and repairs to surface and subsurface facilities, workover of producing oil and gas wells and the addition of new producing facilities of \$9.8 million and a \$2.6 million increase in agricultural crop costs.

GENERAL AND ADMINISTRATIVE

General and administrative expense increased \$6.6 million primarily due to higher salaries and wages and increased losses on foreign exchange.

INTANGIBLE DEVELOPMENT COSTS

Intangible development costs increased \$27.0 million principally due to an increase in the number of wells drilled and inflationary increases in contractors charges and other expenses related to the drilling of oil and gas wells.

NONPRODUCTIVE LEASES AND OTHER PROPERTIES ABANDONED

Nonproductive leases and other properties abandoned increased \$9.4 million principally due to a \$5.2 million increase in agricultural properties written down and a \$3.5 million increase in undeveloped oil and gas leases abandoned.

DIVIDENDS AND MISCELLANEOUS INCOME

Dividends and miscellaneous income decreased \$3.8 million primarily due to a \$3.7 million decrease in dividends received from Texaco Inc.

INTEREST EXPENSE

Interest expense decreased \$2.7 million primarily due to a \$37.2 million decrease in outstanding long-term debt.

INCOME TAXES

Income taxes increased \$21.7 million primarily due to changes in United States and Canadian Federal income tax regulations. See Note 5 to the financial statements for a more complete discussion of income taxes.

Management's Analysis and Discussion of the Summary of Operations

1974

OPERATING REVENUES

Operating revenues increased from \$243.5 million in 1973 to \$332.7 million in 1974. Increases in revenues from crude oil and condensate (\$48.3 million) due to industry-wide price increases and increases in revenues from natural gas (\$29.5 million) principally due to increased prices for interstate sales allowed under government regulations enacted during the year and higher prices for new production sold in intrastate markets, accounted for the majority of the increase.

OPERATING COSTS

Operating costs increased \$9.4 million primarily due to an increase in oil and gas expenditures for pumping, maintenance and repairs to surface and subsurface facilities and the workover of producing oil and gas wells of \$2.4 million and a \$3.8 million increase in agricultural crop costs.

GENERAL AND ADMINISTRATIVE

General and administrative increased \$3.0 million primarily due to higher salaries and wages and general inflationary increases in other costs.

GEOLOGICAL AND GEOPHYSICAL

Geological and geophysical increased \$7.0 million principally due to new operations in Bolivia and India and expanded operations in Peru, together with increased activity in the offshore areas of Texas, Louisiana and California.

INTANGIBLE DEVELOPMENT COSTS

Intangible development costs increased \$17.3 million principally due to the increase in number of wells drilled and inflationary increases in contractors charges and other expenses related to the drilling of oil and gas wells.

TAXES (OTHER THAN INCOME)

Taxes (other than income) increased \$6.7 million primarily due to higher oil and gas production and severance taxes resulting from increased revenue in Texas and Louisiana and a change in the Louisiana tax rate.

EQUITY IN EARNINGS OF AFFILIATES

Equity in earnings of affiliates decreased \$3.1 million principally due to the Company's equity in the earnings of McIntyre Mines Limited. McIntyre's income decreased primarily due to a decrease in its equity in the earnings of Falconbridge Nickel Mines Limited (owned 37.3 percent). In addition, McIntyre's 1973 income included a \$3.5 million gain from the sale of certain mining properties.

INTEREST EXPENSE

Interest expense increased \$3.5 million due to a rise in the prime interest rate.

INCOME TAXES

Income taxes increased \$13.4 million principally due to higher income and increased Canadian tax rates.

Five-Year Summary

ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY	1975	1974	1973	1972	1971
(amounts in thousands of dollars)					
CURRENT ASSETS					
Cash	20,551	19,165	33,371	24,411	32,860
Short-term investments	69,790	41,772	18,911	20,391	5,510
Accounts receivable	83,935	64,515	44,060	40,714	39,904
Inventories	33,770	23,361	10,114	8,360	8,515
Prepaid expenses	8,764	6,608	7,233	7,302	6,259
	<u>216,810</u>	<u>155,421</u>	<u>113,689</u>	<u>101,178</u>	<u>93,048</u>
CURRENT LIABILITIES					
Accounts payable	53,987	37,937	25,660	30,197	22,647
Natural gas sales subject to refund	31,645	—	—	—	—
Current maturities on long-term debt	13,581	17,194	9,419	13,289	12,234
Other current liabilities	14,665	13,633	7,263	3,592	2,589
Federal and foreign income taxes	26,142	13,172	7,827	7,001	1,361
	<u>140,020</u>	<u>81,936</u>	<u>50,169</u>	<u>54,079</u>	<u>38,831</u>
WORKING CAPITAL	<u>76,790</u>	<u>73,485</u>	<u>63,520</u>	<u>47,099</u>	<u>54,217</u>
OTHER ASSETS					
Properties, plant and equipment	812,940	760,333	695,848	612,546	566,582
Less depletion, depreciation and amortization	316,525	290,137	264,566	244,727	226,134
	<u>496,415</u>	<u>470,196</u>	<u>431,282</u>	<u>367,819</u>	<u>340,448</u>
Investment in affiliated companies	118,742	97,374	95,391	87,810	98,964
Investment in Texaco Inc.	16,155	60,927	60,927	64,347	64,347
Investment in other securities	27,641	25,107	25,013	24,625	20,488
Deferred charges and other assets	11,019	13,111	9,629	10,910	15,812
	<u>669,972</u>	<u>666,715</u>	<u>622,242</u>	<u>555,511</u>	<u>540,059</u>
OTHER LIABILITIES					
Long-term debt	96,746	130,379	148,747	118,652	114,296
Natural gas sales subject to refund	—	30,074	32,856	30,835	32,038
Deferred Federal and foreign income taxes ..	27,082	20,145	19,290	20,396	21,357
Minority interest in Canadian Superior Oil Ltd.	81,106	65,413	50,578	41,896	38,099
	<u>204,934</u>	<u>246,011</u>	<u>251,474</u>	<u>211,779</u>	<u>205,790</u>
NET ASSETS (working capital plus other assets less other liabilities)	<u>541,828</u>	<u>494,189</u>	<u>434,291</u>	<u>390,831</u>	<u>388,486</u>
SHAREHOLDERS' EQUITY					
Common stock	10,625	10,625	10,625	10,625	10,625
Additional paid-in capital	1,639	1,636	1,552	1,095	951
Retained earnings	566,314	517,393	455,033	411,894	408,389
Treasury stock, at cost	(36,750)	(35,465)	(32,919)	(32,783)	(31,479)
	<u>541,828</u>	<u>494,189</u>	<u>434,291</u>	<u>390,831</u>	<u>388,486</u>

Five-Year Summary

CHANGES IN FINANCIAL POSITION

(amounts in thousands of dollars)

RESOURCES PROVIDED

From operations

	1975	1974	1973	1972	1971
Income before extraordinary items	51,926	60,997	41,783	17,509	16,299
Depletion, depreciation and abandonments ..	50,571	39,261	40,174	37,773	37,911
Equity in earnings of affiliates	(3,798)	(3,432)	(6,534)	4,639	3,998
Deferred income taxes	6,936	757	(1,106)	(961)	4,242
Gain on sale of Texaco stock	(24,251)	—	(4,747)	—	—
Minority interest in Canadian Superior Oil Ltd.	15,511	14,761	8,099	3,982	2,943
Other (net)	1,095	1,666	1,376	964	(2,456)
	<u>97,990</u>	<u>114,010</u>	<u>79,045</u>	<u>63,906</u>	<u>62,937</u>

Extraordinary item—Federal income tax expense eliminated by prior years' loss carryforwards

	—	7,000	6,000	—	—
Proceeds from long-term debt	27,439	28,400	54,994	21,695	20,609
Natural gas sales subject to refund	—	—	—	—	583
Proceeds from sale of Texaco stock	69,023	—	8,167	—	—
	<u>194,452</u>	<u>149,410</u>	<u>148,206</u>	<u>85,601</u>	<u>84,129</u>

RESOURCES APPLIED

Additions to properties, plant and equipment

Oil and gas properties	27,315	41,903	23,049	21,839	6,322
Wells and related production equipment ..	28,427	16,212	15,932	22,994	18,848
Agricultural properties and equipment	5,751	12,184	59,151	12,472	4,376
Other	18,902	13,228	9,693	11,001	16,548
Purchase of treasury stock	1,285	2,546	136	1,304	3,398
Retirement of long-term debt	64,685	38,993	28,769	16,284	13,498
Natural gas sales subject to refund	30,074	—	—	—	—
Increase (decrease) in current maturities	(3,613)	7,775	(3,870)	1,055	4,317
Investment in Austral Oil Company Incorporated	14,207	—	—	—	—
Investment in McIntyre Mines Limited	1,345	—	—	—	—
Cash dividends paid on common stock	6,421	5,637	5,646	5,648	5,668
Investment in Western Platinum	—	(1,515)	—	2,219	5,527
Deferred receivable	—	—	—	(7,985)	7,985
Other (net)	(3,652)	2,482	(6,721)	5,888	(658)
	<u>191,147</u>	<u>139,445</u>	<u>131,785</u>	<u>92,719</u>	<u>85,829</u>

INCREASE (DECREASE) IN WORKING CAPITAL..**ANALYSIS OF INCREASE (DECREASE) IN WORKING CAPITAL**

Cash	1,386	(14,206)	8,960	(8,449)	4,623
Short-term investments	28,018	22,861	(1,480)	14,881	(15,469)
Accounts receivable	19,420	20,455	3,346	810	10,499
Inventories and prepaid expenses	12,565	12,622	1,685	888	1,411
Accounts payable and other current liabilities ..	(17,082)	(18,647)	866	(8,553)	(580)
Natural gas sales subject to refund	(31,645)	—	—	—	—
Current maturities on long-term debt	3,613	(7,775)	3,870	(1,055)	(4,317)
Federal and foreign income taxes	(12,970)	(5,345)	(826)	(5,640)	2,133
	<u>3,305</u>	<u>9,965</u>	<u>16,421</u>	<u>(7,118)</u>	<u>(1,700)</u>

Five-Year Summary

INCOME BY LINES OF BUSINESS

(amounts in thousands of dollars)

The Superior Oil Company and its subsidiaries and affiliates are engaged in the following lines of business:

OIL AND GAS	1975	1974	1973	1972	1971
Operating revenues					
Gross sales of crude oil, natural gas and natural gas liquids	434,909	371,364	258,375	229,761	216,652
Less: royalty interest	78,217	64,043	36,794	32,119	30,288
	<u>356,692</u>	<u>307,321</u>	<u>221,581</u>	<u>197,642</u>	<u>186,364</u>
Other operating revenues	6,509	5,800	3,618	2,567	3,224
Operating expenses	(249,099)	(198,423)	(162,343)	(163,639)	(156,502)
Dividends and miscellaneous income	28,199	7,684	11,165	6,414	6,182
Equity in affiliate	509	—	—	—	—
Minority interest in Canadian Superior Oil Ltd..	(29,226)	(23,373)	(11,622)	(6,413)	(4,820)
	<u>113,584</u>	<u>99,009</u>	<u>62,399</u>	<u>36,571</u>	<u>34,448</u>
 AGRICULTURE					
Operating revenues	18,704	19,264	18,062	5,655	1,830
Operating expenses	(29,615)	(20,818)	(15,170)	(6,310)	(3,696)
	<u>(10,911)</u>	<u>(1,554)</u>	<u>2,892</u>	<u>(655)</u>	<u>(1,866)</u>
 MINING					
Operating revenues	7	12	112	(10)	12
Operating expenses	(8,083)	(7,895)	(7,291)	(5,402)	(4,178)
Equity in affiliates	3,289	3,432	6,534	(4,639)	(3,998)
Minority interest in Canadian Superior Oil Ltd..	420	497	279	571	606
	<u>(4,367)</u>	<u>(3,954)</u>	<u>(366)</u>	<u>(9,480)</u>	<u>(7,558)</u>
 OTHER					
Operating revenues	237	254	162	99	20
Operating expenses	(47)	(154)	(35)	(18)	(10)
Dividends and miscellaneous income	6,527	6,600	3,894	2,940	3,021
Interest expense	(11,588)	(14,242)	(10,719)	(7,136)	(7,444)
Income taxes	(54,804)	(33,077)	(19,688)	(6,672)	(5,583)
Minority interest in Canadian Superior Oil Ltd..	13,295	8,115	3,244	1,860	1,271
	<u>(46,380)</u>	<u>(32,504)</u>	<u>(23,142)</u>	<u>(8,927)</u>	<u>(8,725)</u>
 INCOME BEFORE EXTRAORDINARY ITEMS	51,926	60,997	41,783	17,509	16,299
 EXTRAORDINARY ITEMS					
Reduction in Federal income tax expense resulting from use of prior years' loss carry- forwards	—	7,000	6,000	—	—
Equity in extraordinary items of affiliated company	3,416	—	1,002	(8,356)	—
	<u>3,416</u>	<u>—</u>	<u>1,002</u>	<u>(8,356)</u>	<u>—</u>
 NET INCOME	<u>55,342</u>	<u>67,997</u>	<u>48,785</u>	<u>9,153</u>	<u>16,299</u>

Five-Year Summary

OTHER FINANCIAL DATA	1975	1974	1973	1972	1971					
Sales price of common stock (per share)										
1st quarter — high	191 ³ / ₄	304	353	257	189 ¹ / ₂					
— low	153	211 ¹ / ₂	289	183	170					
2nd quarter — high	225	212	295 ¹ / ₂	276	221					
— low	160 ¹ / ₂	165	213	232	187					
3rd quarter — high	249	172 ⁷ / ₈	260	323	221					
— low	165	134	201	236	175					
4th quarter — high	197 ³ / ₄	196	337	358	190					
— low	160 ¹ / ₂	142	253	316	138					
Dividends paid per quarter (per share of common stock)										
1st quarter	.35	.35	.35	.35	.35					
2nd quarter	.35	.35	.35	.35	.35					
3rd quarter	.45	.35	.35	.35	.35					
4th quarter	.45	.35	.35	.35	.35					
Current ratio*	1.5:1	1.9:1	2.3:1	1.9:1	2.4:1					
OPERATING DATA*										
Liquid hydrocarbons — gross production (bbls. per day)										
Crude oil										
United States	51,236	56,326	61,012	67,888	69,523					
Canada	31,020	34,153	35,994	34,170	31,708					
Other	200	190	218	223	153					
	<u>82,456</u>	<u>90,669</u>	<u>97,224</u>	<u>102,281</u>	<u>101,384</u>					
Natural gas liquids										
United States	10,585	11,985	12,078	11,584	11,356					
Canada	5,995	5,734	4,696	5,229	4,782					
	<u>16,580</u>	<u>17,719</u>	<u>16,774</u>	<u>16,813</u>	<u>16,138</u>					
Natural gas — gross sales (Mcf per day)										
United States	750,503	890,542	945,603	982,954	890,848					
Canada	209,482	203,701	204,481	167,901	152,910					
Other	82,808	77,997	63,262	58,065	38,316					
	<u>1,042,793</u>	<u>1,172,240</u>	<u>1,213,346</u>	<u>1,208,920</u>	<u>1,082,074</u>					
Sulfur — gross sales (long tons per day)										
Canada	<u>369</u>	<u>639</u>	<u>622</u>	<u>522</u>	<u>463</u>					
Employees at year-end	3,341	3,346	3,087	2,806	2,529					
Payroll and benefits (in thousands of dollars)	58,752	50,115	42,397	35,714	31,836					
Wells drilled	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory										
Productive	57	21	60	17	33	12	31	14	32	10
Abandoned	113	42	139	37	95	27	120	51	109	39
Development										
Productive	295	77	274	56	202	64	142	37	196	94
Abandoned	26	8	29	6	21	5	19	5	28	12
	<u>491</u>	<u>148</u>	<u>502</u>	<u>116</u>	<u>351</u>	<u>108</u>	<u>312</u>	<u>107</u>	<u>365</u>	<u>155</u>

* Includes 100% of Canadian Superior Oil Ltd.



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Pacific Coast Stock Exchange

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New York Stock Exchange

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